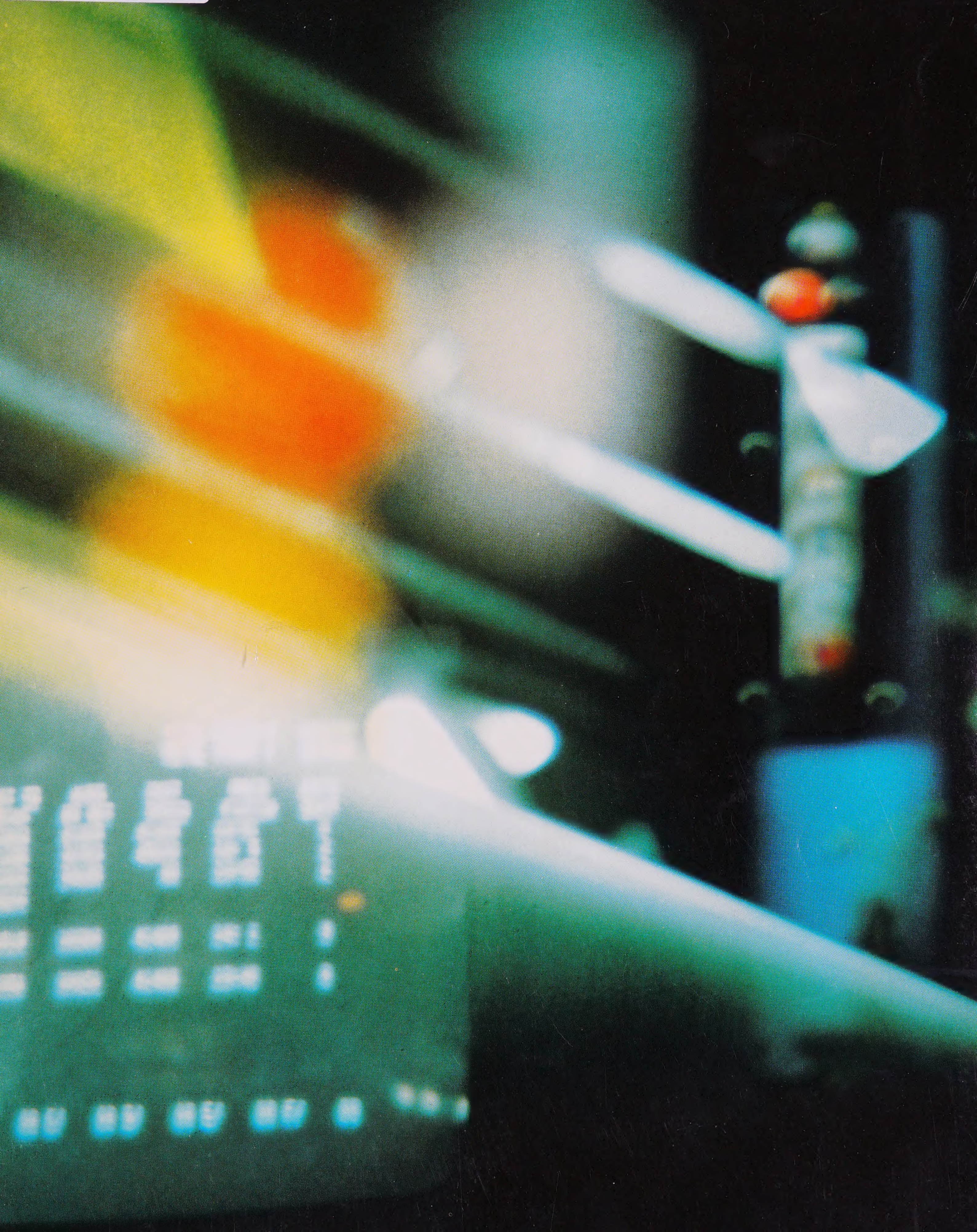
Toronto Star Limited Annual Report 1976



TORSTAR

As shareholders were advised in an interim report, the program of reorganization presented to last year's Annual Meeting will be completed when the change of name of the parent company from Toronto Star Limited to Torstar Corporation comes before the Annual Meeting for approval January 19, 1977.

The Corporate Name

The opportunities and requirements which come with the last quarter of the Twentieth Century dictate change for all companies and institutions. The name Torstar is a reflection of the change which this corporation is making. It retains a strong link with the company's traditions, dating from the founding of The Toronto Star newspaper in 1892, but is distinctive in reflecting the continuing diversification of the corporation's interests.

A growing involvement with the total field of communications is dramatically highlighted in the rendering on the facing page of the new Torstar corporate logotype by Canada's leading graphic designer, Allan Fleming. Mr. Fleming has created a unique typeface based on a new electronic alphabet developed from the elements which form calculator and computer figures. A look into the faceplate of your personal calculator, or into the more sophisticated video scanning terminals now used in newspapers, is a look into the future of electronic communication and this is the inspiration for visibly positioning Torstar in the forefront of such development.

In terms of corporate reorganization, the name reflects the basic change in structure approved by shareholders to separate the day-by-day operations of The Star newspaper from the overall financial control and the planning for orderly growth and development of the parent corporation.

Corporate Organization

Management Company

Toronto Star Limited (to become Torstar Corporation)

Newspaper Publishing

Toronto Star Newspapers Limited
Metrospan Community Newspapers Limited
Southstar Publishers Limited*
Toronto Star Syndicate

Books and Learning Materials

Harlequin Enterprises Limited

Printing, Magazines and Communication Development

Commercial Printing — Rotogravure Plant
— Newsweb Enterprise Limited
Comac Communications Limited
INFOMART *
Nielsen-Ferns Inc.
*50% interest

Head Office

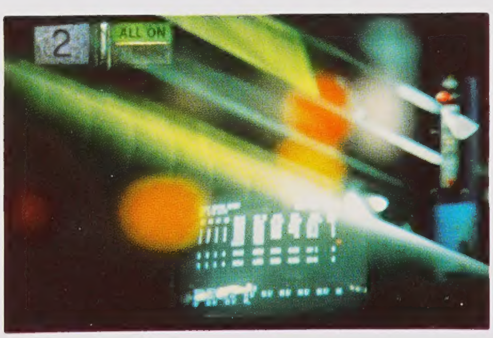
One Yonge Street
Toronto, Ontario
M5E 1P9
(416) 367-4595

Transfer Agent and Registrar

National Trust Company, Limited

Listed

Classes B & C Shares
Toronto and Montreal Stock Exchanges



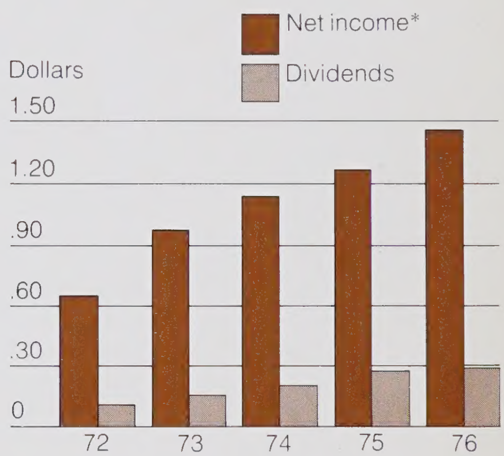
The cover

The reorganization of the company and the change of name is a recognition of movement; of increasing participation in a steadily widening sphere of Canadian and world communications. The spirit of this expansion and diversification, from firm base to limitless horizons, is reflected in the cover of this year's Annual Report.

Summary of Financial Information

	1976	1975
Consolidated operating revenue	**$193,001,000**	$129,306,000
Net Income		
— before extraordinary item	**$ 11,690,000**	$ 9,389,000
— after extraordinary item	**$ 12,711,000**	$ 9,389,000
Average shares outstanding	**8,040,723**	7,467,997
Earnings per share		
— before extraordinary item	**$ 1.45**	$ 1.26
— after extraordinary item	**$ 1.58**	$ 1.26
Dividends paid	**$ 2,332,000**	$ 1,943,000
Dividends per share	**29¢**	26¢

Per share data



*excluding extraordinary items

Your Directors are pleased to report continued growth in the company's consolidated revenue and earnings during the fiscal year ended September 30, 1976. In addition, there were major developments in our diversification program, as well as improvement in existing operations and products.

These accomplishments, and continued development of people resources in all of our companies, have enhanced our ability to make a significant contribution in areas of communications need in Canada.

Net income for the year was $11,690,000 prior to an extraordinary gain through tax recovery of $1,021,000. Earnings per share, before the extraordinary item, were $1.45 compared to $1.26 in 1975, a 15 per cent improvement. The percentage gain in earnings per share was lower than the 24.5 per cent increase in dollar income before the extraordinary item, reflecting a larger number of shares outstanding in 1976.

These additional shares partially financed the acquisition of control of Harlequin Enterprises Limited. The addition of Harlequin accounts for a large part of the growth in scale of consolidated operations in fiscal 1976.

Growth in revenue

Consolidated operating revenue increased from $129,306,000 in 1975 to $193,001,000 in 1976, with Harlequin contributing almost $48 million of the $64 million increase. It is notable that, before deducting inter-company printing revenue, total sales of our businesses were just over $200 million in 1976.

Revenues from newspaper operations increased 12 per cent in 1976, including gains shown by the Metrospan community newspapers. Advertising volume and revenue in The Toronto Star also showed healthy increases.

All categories of display advertising in The Star were ahead, including significant gains in Star Week and in pre-printed advertising inserts. This latter source of advertising is becoming a major factor for The Star.

Star classified volume was down about 5 per cent this year, largely as a result of a continued decline in Help Wanted that arose during the 1974-1975 recession. There are some indications that this decline is slowing, although a turn-around will likely await reductions in the unemployment rate.

Star circulation volume was most encouraging during 1976. Average circulation of the Saturday Star increased to a new high of 768,532 copies. Following two years of decline, the Monday to Friday Star also gained circulation in 1976, averaging 488,942. There were no circulation price increases during the year. As a result, circulation revenue was only moderately higher than in 1975 and this contributed to a decline in the rate of operating return on newspaper revenues from 14.6 per cent to 14 per cent.

In order to comply with the Canadian Anti-Inflation program, the rate of increases in selling prices did not match that of costs. This contributed to the levelling off in the rate of return from newspaper operations. Balancing this was the substantially higher margin of return available in the book publishing operations. Consequently, consolidated operating profit represented a 14.7 per cent return on total revenues.

The changing newspaper operation

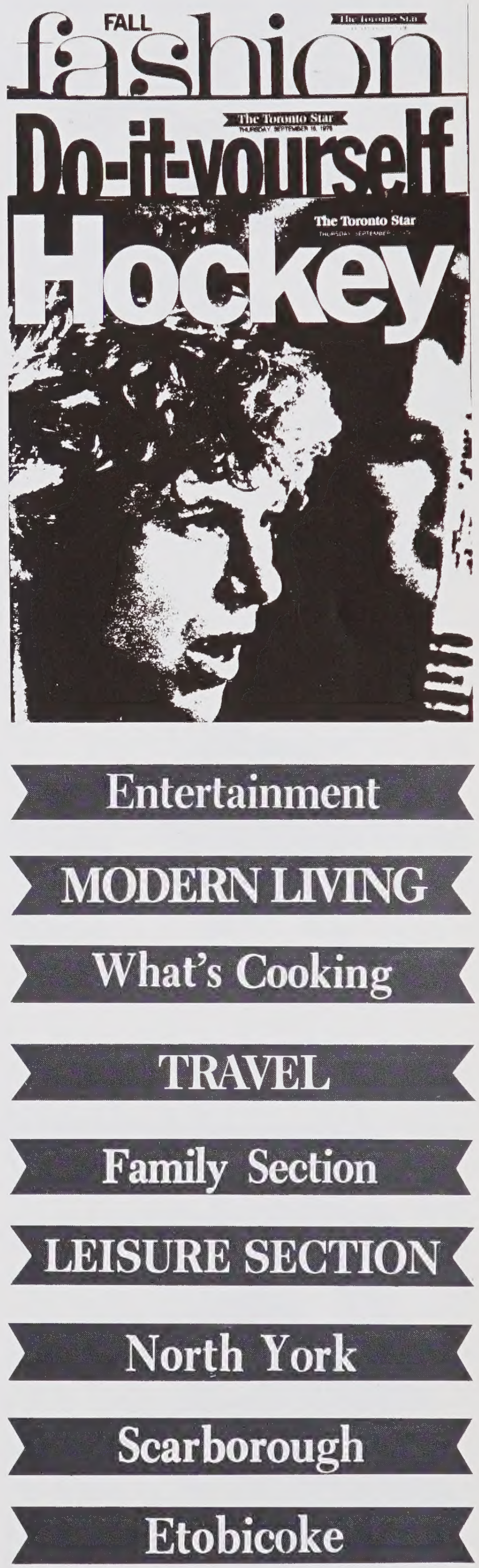
In mid-1976, a completely new distribution system was introduced by The Star. The new system features on-line computer control and a daily up-date of subscriber lists, more full time staff delivering papers directly to carriers' homes, and improved supervision on a decentralized basis. Start-up costs for the new system were absorbed in 1976 and should lead to operating savings in 1977, as well as assisting our drive to increase circulation.

A number of changes also were made in 1976 in the editorial content of The Star and in the organization and classification of news, opinion and advertising to fit reader needs. Special subject sections, ranging from "What's Cooking" on Wednesdays to a weekday Entertainment section, have been added so that household members can select their area of particular interest for first and favored reading. The Star is now printed in up to six daily sections and eight on Saturday. In addition, the newspaper may include special color magazines on seasonal subjects, and a wide variety of advertising inserts, including catalogues.

A significant addition in the fall of 1976 has been the introduction of a Modern Living section in the Saturday paper with more than 40 columns of news and helpful features. This section also provides an improved marketplace for home advertising and is the forerunner of other marketing innovations planned to better match reader and advertiser needs.

Reader response to new features in The Star has been encouraging. More than 50,000 extra copies were sold of the issues which carried special color magazine supplements on the 1976 Olympics, the Canada Cup World Hockey series and the CN Tower.

Other recent improvements in The Star include a daily front page synopsis of the news, more community news presented on special community edition pages, geographical listing of classified home advertising, more news on food, fashion, fad and furnishing trends, and increased emphasis on news and features for young people.



Dramatic, exciting color magazines and in-paper sections add variety and serve the diverse interests of The Star's audience.

Response to a Homemaker's article: over 200 Block Parents Programs have started across Canada.


Last year Harlequin sold over 72 million romantic novels in more than 80 countries.

One of the areas of greatest change — where The Star is a leader in North America — is in providing readers with improved access to the newspaper's columns as a forum for their own opinions and concerns. The operation of these specific access services is handled by 12 editorial employees.

Supporting them is another group of people concerned with responding to reader needs by means of an inquiry service which tracks what has appeared in the newspaper on specific subjects, a Newspaper-In-Education program for students and teachers, a tour program for students who want to see first hand the newspaper in operation and a front counter service for those who come to One Yonge Street in person with a need, whether it be to get back copies of the paper or to write a personal ad.

Other operating companies within the corporation place similar emphasis on reader involvement. Noteworthy is the fostering of a Block Parents Program in Canada by Homemaker's Magazine and sponsorship of a community beautification awards program by Metrospan papers.

Magazine and book revenues up

Comac Communications Limited, which publishes Homemaker's, Madame Au Foyer and Quest magazines, substantially improved its advertising volume and revenues in 1976, resulting in a further improvement in Comac's contribution to corporate earnings. Quest magazine became profitable, a notable achievement for a new magazine in only its fifth year of operation.

Homemaker's 10-year growth is one of the success stories of the Canadian magazine industry. The English and French editions have a circulation of 1,500,000, third highest among all magazines in Canada, and 96 per cent of that circulation is concentrated in urban households. Consequently, Homemaker's/Madame Au Foyer circulation in Canada's 23 largest markets is almost as great as its two major competitors combined. The response of advertisers to this selective urban reach is highlighted by a comparison between the October issues of 1966 and 1976. The first issue contained 13 pages of editorial and 10 pages of advertising with a total revenue of $71,000. The October 1976 issue contained 110 pages of editorial, 68 pages of advertising and four full-color multi-page inserts with total revenue of $1,072,000.

In the book publishing field, Harlequin Romances continue to be a growing way of life for millions of readers around the world. The company achieved increased sales of its romantic novels and its general books and educational materials during the year, although foreign currency changes and substantial fluctuations in book returns held earnings near 1975 levels.

As part of a program to increase penetration of international markets, Harlequin launched a company in Holland in 1975 which quickly achieved substantial success during the past year with sales under the "Bouquet Reeks" (Bouquet of Flowers) label. However, North America continues to account for approximately 85 per cent of book sales and earnings and Harlequin is directing its major development effort in this market.

Harlequin's romantic novels now account for about 10 per cent of the entire paperback book publishing industry in North America.

Further improvement in other operations

Metrospan Community Newspapers Limited, which publishes nine community papers to serve the areas around central Toronto, continued to improve performance in 1976. The company filled a gap in its area of operations by acquiring The Bolton Enterprise.

The corporation's commercial printing operations — a rotogravure plant and the offset printing facilities of Newsweb Enterprise Limited — were centralized under a single management after the corporation increased its ownership of Newsweb from 80 per cent to 100 per cent in the second quarter. Volume was up during the year and commercial printing increased its contribution to the corporation's improved earnings.

Further diversification within the communications industry took place just after the fiscal year-end through acquisition of the creative capabilities of a Canadian production group making films for television, commercial, education and industrial markets. Nielsen-Ferns Inc. plans to further expand its production and marketing of Canadian programs for television and theatrical release.

The corporation's cash flow position is good and this facilitated a substantial investment in broadcasting at year-end. In addition to repaying over $6 million of long-term debt during the year, current funds were used to pay for part of a $6.6 million investment in the shares of Western Broadcasting Company Ltd. At October 20th, the last day on which the corporation acquired Western shares on the market, Toronto Star Limited held approximately 17 per cent of Western's outstanding common shares. Western is engaged in radio and television broadcasting in Canada and represents an attractive potential for growth as a result of its sound management and good track record in the communications industry.

A five year review

September 30, 1976 marks the end of an interesting five year period in the company's development, from a predominantly newspaper operation to a more diversified company. At September 30, 1971 a new plant for The Toronto Star newspaper had been constructed at One Yonge Street. A 70 per cent growth in the scale of operations followed as a result of higher advertising and circulation volume and this dictated a period of concentrated attention to the newspaper operation. The heavy investment program had added almost $30 million in debt.

Over the five years since 1971, this investment in The Star has been rewarded by healthy growth in earnings, and the company has been able to accelerate its diversification program. This is illustrated by the data set out below which shows the total sources and uses of funds in the five years since September 30, 1971.

Funds have been provided as follows:	
Cash flow from operations (net income before non-cash items such as depreciation, amortization, deferred income taxes and minority interest)	$ 63,000,000
New debt incurred (principally in 1976 to partially finance acquisitions)	24,000,000
Issues of new capital stock	11,000,000
Other sources	2,000,000
Total funds made available	$100,000,000
The available funds have been used over the five year period in the following ways:	
Acquisition of subsidiaries (controlling interest in Newsweb Enterprise Limited in 1973, 95% of Comac Communications Limited in 1974, 52% of Harlequin Enterprises Limited in 1976) and non-current investments (17% of Western Broadcasting Company Ltd. in 1976)	$ 39,000,000
Purchase of fixed assets (principally to enlarge and modernize production and distribution of The Toronto Star)	16,000,000
Increase in working capital required by higher-scale operations	6,000,000
Total investment in our businesses	$ 61,000,000
Repayment of debt	31,000,000
Dividends paid to Toronto Star Limited shareholders	8,000,000
Total funds used	$100,000,000

The corporation has moved in the five year period from a position where non-newspaper operations contributed only 6 per cent of consolidated operating revenue in 1972 to a more balanced situation where some 25 per cent of consolidated operating revenue came from other sources in 1976.

Profitability of newspapers

Of continuing and long-term concern to the corporation is the steady rise in the cost of producing the daily newspaper in its present form. Newsprint prices increased in March, 1976 and again in November and currently are running 18 per cent ahead of the same period last year.

Total newspaper operating costs increased 13 per cent in 1976. Employee costs kept pace with the 12 per cent increase in revenues but paper and ink and other costs increased at a slightly higher rate.

Salary rates for most employees will increase by approximately 8 per cent on January 1 as part of a two year contract with the Toronto Newspaper Guild. Negotiations for new contracts, for the period starting January 1, 1977, are underway with the unions representing our production staff.

The major item in our capital expenditure plan for the coming year involves expansion of facilities and equipment at the One Yonge Street newspaper plant to increase capacity for handling advertising inserts and special color magazine supplements. This is a $9 million project and will extend over two years. Work will also continue during 1977 on new production systems and techniques.

Outlook for 1977

The outlook for 1977 is for continued growth in advertising and circulation revenue in newspaper and magazine operations, and for increased volume in book publishing, commercial printing and film production.

Some uncertainty about the general level of business activity, particularly in the construction field, means that 1977 will be another challenging year for all businesses in Canada and this has been taken into consideration in our planning.

In addition to growth in our existing operations, the corporation has a well defined acquisition strategy in the communications industry and we will continue to seek out appropriate opportunities to which we can apply our financial and human resources.

In keeping with the changes in the corporation, the Board of Directors was expanded to 12 members with the election in January of Richard A. N. Bonnycastle, Chairman of Harlequin, Mrs. Catherine Atkinson Crang, granddaughter of the founder of The Star, and Martin Goodman, editor-in-chief of The Star.

The continuing fine contributions of our employees augur well for the success of Toronto Star Limited in handling both its challenges and its opportunities throughout 1977. The company is expanding its manpower training and development programs and management places a high priority on creating the type of job environment where employees can contribute to and share in the success of the corporation.

Beland Honderich
Chairman and
Chief Executive Officer

William A. Dimma
President and
Chief Operating Officer

December 3, 1976

Five-year Operating Highlights

Operating revenue (thousands of dollars)	1972	1973	1974	1975	**1976**
Newspapers	$77,911	$91,257	$104,388	$116,267	**$130,195**
Books and learning materials	—	—	—	—	**47,811**
Printing and magazines	4,420	8,263	16,158	19,090	**22,468**
	82,331	99,520	120,546	135,357	**200,474**
Less intercompany printing revenue	2,907	4,739	5,790	6,051	**7,473**
Consolidated operating revenue	$79,424	$94,781	$114,756	$129,306	**$193,001**

Operating profit and net income (thousands of dollars)					
Newspapers	$10,224	$13,927	$16,873	$16,969	**$18,208**
Books and learning materials	—	—	—	—	**8,573**
Printing and magazines	342	438	408	945	**1,654**
Consolidated operating profit	10,566	14,365	17,281	17,914	**28,435**
Add (deduct):					
Net financial revenue(expense)	(1,265)	(367)	(546)	248	**(599)**
Amortization of goodwill	—	—	—	—	**(826)**
Exchange adjustment	—	—	—	—	**(438)**
Income before taxes	9,301	13,998	16,735	18,162	**26,572**
Income taxes	4,655	6,881	8,324	8,773	**12,773**
Income before minority interest	4,646	7,117	8,411	9,389	**13,799**
Minority interest in earnings of subsidiaries	—	—	—	—	**2,109**
Net income*	$ 4,646	$ 7,117	$ 8,411	$ 9,389	**$ 11,690**

*excluding extraordinary items

Per share data (adjusted for stock splits)					
Net income*	64¢	97¢	$1.13	$1.26	**$1.45**
Dividends	10¢	15¢	20¢	26¢	**29¢**
Shareholders' equity	$3.98	$4.80	$5.15	$6.18	**$8.02**

*excluding extraordinary items

Rate of return on revenue					
Consolidated operating profit	13.3%	15.2%	15.1%	13.9%	**14.7%**
Income before minority interest and extraordinary items	5.8%	7.5%	7.3%	7.3%	**7.1%**

Data on The Toronto Star newspaper

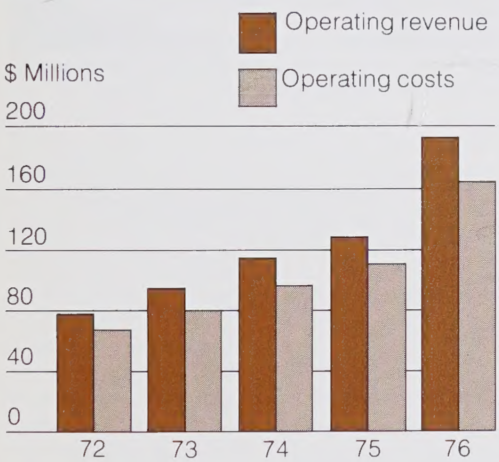
Advertising linage (thousands of lines)	1972	1973	1974	1975	**1976**
Display	31,561	33,194	33,571	34,173	**36,572**
Classified	18,033	18,692	21,979	21,643	**20,598**
Total	49,594	51,886	55,550	55,816	**57,170**

Circulation (12-month average)					
Monday to Friday	507,249(1)	509,679	502,802	484,426	**488,942**(2)
Saturday	701,959(1)	746,376	739,899	749,847	**768,532**(2)

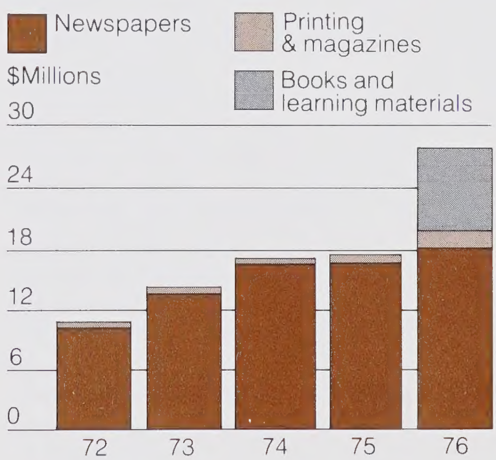
(1) The 11-month period (November 1971 to September 1972) was used for 1972 because of a substantial increase in circulation beginning on November 1, 1971.

(2) As filed with the Audit Bureau of Circulations, subject to audit.

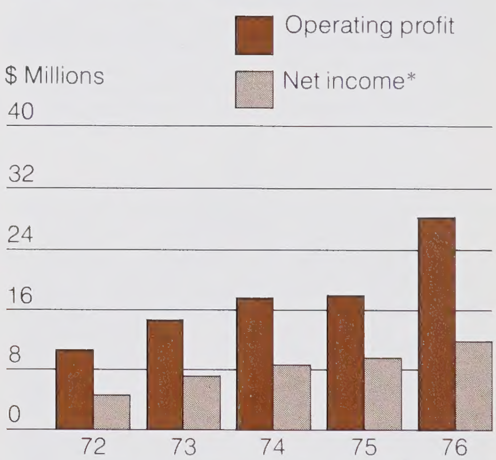
Operating revenue and costs



Operating profit

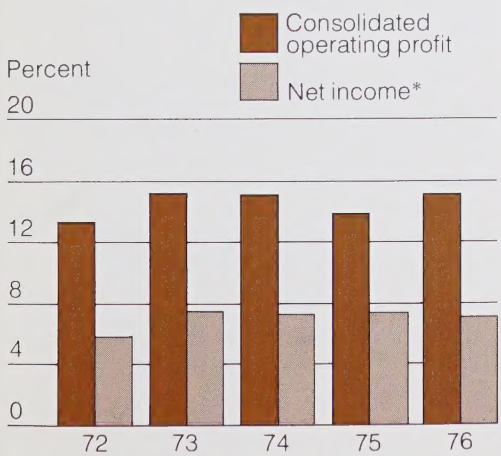


Operating profit and net income



*excluding extraordinary items

Rate of return on revenue



*before minority interest and extraordinary items

The Corporate Management Company

Corporate management is responsible for a program of growth and diversification which will enable the corporation to employ its resources across the full range of the communications industry.

In doing so, the corporation will realize its multiple responsibilities.

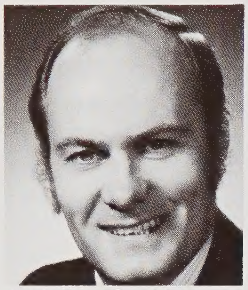
To the community at large, it will provide full and frank dissemination of news and opinion consistent with the principles established by founder Joseph E. Atkinson.

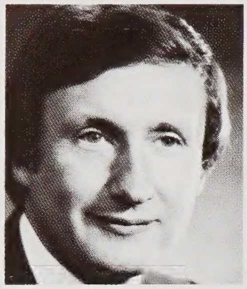
To employees, it will offer the opportunity to further develop and apply their communication skills to serve more of the interests and needs of the Canadian public.

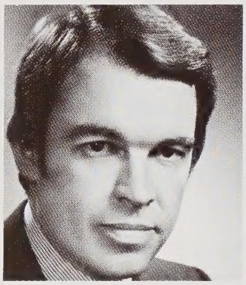
To shareholders, it will assure long-term growth of their investment through involvement in areas of the communications industry which provide better rates of return than the newspaper business alone.

To the government, it offers the growing strength of a free enterprise partner able to provide practical help in achieving the country's cultural goals. Only by building larger entities in the Canadian communications industry can we hope to marshal the talent and financial resources to create and market information and entertainment products which can compete successfully with the inflow from other countries.

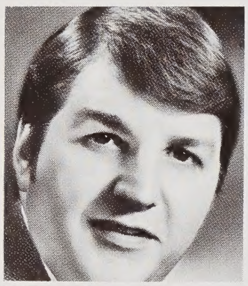
In setting our goals, we believe Toronto Star Limited is properly in tune with the times. Our primary objective is a social objective: to provide full and frank dissemination of news and opinion so that society may be well informed of current events and educated in all facets of key issues, be they economic, social or political. To the extent that our business activities produce and market services and products, it is our objective to provide and maintain an exemplary level of service and an outstanding quality-to-price relationship.

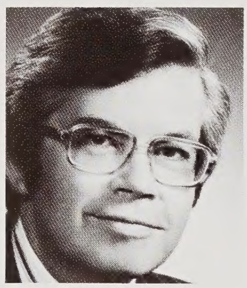

J. Murray Cockburn


A. Roy Megarry


Neil A. Baird


Robert J. Deane


Cameron L. Fellman


Douglas W. Heal

*Beland H. Honderich,
Chairman and Chief Executive Officer

*William A. Dimma,
President and Chief Operating Officer

*Burnett M. Thall,
Vice-President

*J. Murray Cockburn,
Vice-President, Finance and Administration

*A. Roy Megarry,
Vice-President, Corporate Development

Neil A. Baird,
Manager, Corporate Development

Robert J. Deane,
Secretary

Cameron L. Fellman,
Director of Corporate Planning

*Douglas W. Heal,
Director of Public Relations

*Member of The Corporate Committee.

Toronto Star Newspapers Limited

Canada's largest newspaper, in its 85th year, is involved in a period of innovation and change unique in its history.

Major changes in content in recent months include the addition of a daily Entertainment section to supplement Saturday's successful Star Week magazine, the introduction of a Modern Living section on Saturdays to showcase home information and advertising, and the addition of a daily index and front page synopsis of the news to provide readers with a three-minute newscap and guide to easy finding of news and features.

Of significant benefit to both readers and advertisers has been the introduction of new magazine formats to the newspaper. In addition to The Canadian Magazine which is included as a regular Saturday supplement, The Star has introduced color rotogravure sections on special interest subjects which appear on selected weekdays.

Some of the changes are not so readily visible to the reader. They include development of greater flexibility in providing news and advertising on a zone or community basis, new circulation record-keeping systems for improved home delivery, additional reporting staff covering significant interest areas, and additional services for classified advertisers. There has been continued attention to providing more access to the newspaper for readers to present their own views, opinions and problems in such forums as Star Probe, a daily page of letters to the editor, the Insight page and frequent opinion samplings. The quality of The Star's editorial performance is constantly monitored by our Bureau of Accuracy. The newspaper also is a member of the Ontario Press Council.

All of the changes result from a conscious management decision to evaluate the overall needs and interests of readers and advertisers and shape the newspaper to meet them. Coordination of the sometimes differing priorities of the advertising, circulation, editorial, financial and production departments is effected by the overlapping membership of senior management in a key committee structure. The Management Committee is the forum for major operating decisions affecting the newspaper as a whole. Input comes from department heads and managers and is focussed through regular meetings of marketing management, the Operations Committee and regular conferences between the Publisher and his news and editorial page executives.

The results of the management restructuring in the newspaper operation, which have shown up first in improved content, will subsequently be seen in improved appearance of the paper, improved ease of reading and the development and marketing of additional products to meet specific reader and advertiser needs.

*Beland H. Honderich,
Chairman and Publisher

*William A. Dimma,
President

*Lionel C. Mohr,
Vice-President, Marketing

*Martin W. Goodman,
Editor-in-Chief

William B. Bond,
Director of Retail Merchandising

John E. A. Brooks,
Executive Managing Editor

*Paul J. Burns,
Director of Operations

William O. Clark,
Retail Advertising Sales Manager

David L. Crane,
Editorial Page Editor

Thomas D. Curzon,
Deputy Managing Editor

Christopher J. Davies,
Director of Industrial Relations

Glenn R. Everingham,
Corporate Systems Manager

Donald A. Haddy,
Director of Technical Services

Mark Harrison,
Executive Editor

Norman R. Kirk,
Director of Advertising

Leonard Kubas,
Marketing Services Director

James F. Robinson,
Director of Circulation

John M. Schiel,
Manager, Personnel Services

Norman C. Spanton,
Production Manager

Geoffrey Stevenson,
Saturday Editor

*Bruce W. Taylor,
Controller

Raymond L. Timson,
Managing Editor

*Member of The Management Committee.

Editorial responsibility for The Star rests with, from left, Martin Goodman, David Crane, Bee Honderich, Ray Timson and John Brooks.

Management Committee is responsible for overall management of the newspaper. From left, Chris Davies presents report to Paul Burns, Bill Dimma, Lionel Mohr, Martin Goodman, Bruce Taylor.

Operations management includes John Schiel, Norm Spanton, Don Haddy, Paul Burns, Glenn Everingham, Bert Simpson.

Marketing decisions require input from Jim Robinson, Norm Kirk, Len Kubas, Lionel Mohr, Doug Heal, Cam Fellman, Bill Bond, Jim Cherrier.

Metrospan Community Newspapers Limited

Metrospan President Ross McCrimmon, left, with Publishers Vince MacMillan, J. G. Van Kampen and Hub Foley.

Group services support the needs of individual Metrospan papers. From left, Bob Maxwell, John Van Kooten, Richard Desrochers and Dick Fish.

D. Ross McCrimmon,
President

Richard R. Fish,
Vice-President, Marketing

Robert C. Maxwell,
Secretary-Treasurer

Richard W. Desrochers,
Publisher,
Mississauga Times

Hubert J. Foley,
Publisher, Oakville Division

Vincent J. MacMillan,
Publisher, Etobicoke Advertiser/Guardian

J. G. Van Kampen,
Publisher, North Division

John Van Kooten,
General Manager, Mirror Division

Reader needs for local community news and opinion are directly served by nine community newspapers, in addition to the zone editions of The Toronto Star. Each newspaper presents a strong and independent editorial voice in its community, but the production and marketing benefits of group publishing are achieved through centralizing these activities in the company's Metrospan subsidiary.

Although operating in a very competitive field, particularly in the Mississauga and Oakville areas to the west of Toronto, Metrospan showed continued improvement in 1976 and filled a gap in its area of operations by acquiring The Bolton Enterprise.

Newspapers are now organized in four publishing groups and include The North York Mirror, The Scarboro Mirror, The Richmond Hill/Thornhill Liberal, The Aurora/Newmarket Banner, The Woodbridge & Vaughan News, The Bolton Enterprise, The Mississauga Times, The Etobicoke Advertiser/Guardian and the Oakville Journal Record. Advertisers can place advertising in any one or any combination of the newspapers through a single Metrospan sales contract and a single insertion order, if they wish.

Commercial Printing

Newsweb Enterprise Limited
Rotogravure Plant

Expansion of commercial printing operations is planned by David Harrison, left, Ray Morris and Rick Wilkinson.

Printing sales are responsibility of David Burke, left, Jim de Wet and Bill Sparrow.

J. Ray Morris,
Director of Commercial Printing and President of Newsweb

David D. Burke,
Newsweb Sales Manager

James A. de Wet,
Marketing Manager

David L. Harrison,
Controller

William C. Sparrow,
Roto Sales Manager

Richard A. Wilkinson,
Roto Division Manager

Although providing a significant volume of printing services to the company's newspaper operations, the Commercial Printing Division is developing increasing success as an independent contract printer.

The printing operations of the rotogravure plant and Newsweb Enterprise Limited were consolidated under a single management during the year after Toronto Star Limited increased its ownership of Newsweb from 80 per cent to 100 per cent. Sales and production management have been restructured and expanded.

Harlequin Enterprises Limited

(52.5% interest)

Harlequin's world-wide operations are directed from Toronto. From left, Messrs. Heisey, Willson, Bellringer and Reaume

Louis Krupat

Samuel A. Whitfield

William T. Webster

John T. Boon, C.B.E.

Alan W. Boon

John Rendall

Klaas Koome

Les Ward

Richard A. N. Bonnycastle,
Chairman

W. Lawrence Heisey,
President

William F. Willson,
Vice-President, Finance, and Secretary

Martin A. Reaume,
Treasurer

John W. Petrie,
Controller

North America

Richard H. Bellringer,
President, Harlequin Book Division

Louis Krupat,
Vice-President, Finance and Administration

Samuel A. Whitfield,
Vice-President, Consumer Sales

Scholar's Choice Limited

William T. Webster,
President

Mills & Boon Limited, London, England

John T. Boon, C.B.E.,
Chairman

Alan W. Boon,
Editorial Director, Fiction

John Rendall,
Managing Director

Harlequin Holland

Klaas Koome,
Managing Director

Mills & Boon Pty. Ltd., Australia

Les Ward,
Managing Director

Through its 52 per cent interest, Toronto Star Limited shares in the international reach of Harlequin Enterprises Limited, the world's leading publisher of a unique kind of reading entertainment for women. Sales of romantic fiction now exceed 72 million paperback books a year. Books are sold in more than 80 countries under the imprints of Harlequin, Mills & Boon, the company's British subsidiary, and Bouquet Reeks (Bouquet of Flowers), the imprint of the company's latest expansion venture in Holland.

In addition to romantic fiction, Mills & Boon is also engaged in the publishing of general and educational non-fiction. In Canada, through Scholar's Choice Limited, the company publishes and distributes a wide range of books and other classroom materials.

The Harlequin Book Division manages the company's mass market publishing operations in Canada and the prime growth market of the United States. Harlequin Romances, a series of eight titles each month, and Harlequin Presents, a series of four monthly titles, account for about 10 per cent of the paperback publishing industry in North America.

Southstar Publishers Limited

(50% interest)

Southstar's interests include magazines, direct marketing and transit advertising. From left, Executive Assistant Joan Dick, Ed Mannion, Rob Myhill, Yves Bouchard.

Edward J. Mannion,
President and Publisher

M. Robert Myhill,
Director of Planning and Development

George Floyd,
Controller

Aerogift Enterprises Limited

Anthony Kennedy,
General Manager

The Canadian Magazine

Gordon Pape,
Publisher

Don Obe,
Editor, The Canadian

Harris Mitchell,
Editor, Canadian Homes

MagnaMedia Limited (50% interest)

Barry L. Thomas,
Vice-President and General Manager

TransAd Ltd./Ltée. (68% interest)

Yves Bouchard,
President

A company jointly owned by Toronto Star Limited and Southam Press Limited, Southstar publishes Canada's largest circulation magazine, The Canadian, a weekly rotogravure supplement distributed with the Saturday editions of 13 Canadian dailies. The company also publishes Canadian Homes four times a year. MagnaMedia Limited is the national sales representative for The Canadian and other newspaper-distributed magazines which serve the market in Canada.

Other Southstar subsidiaries are Aerogift Enterprises Limited, which markets merchandise by mail in response to magazine and catalogue coupon orders, and TransAd Ltd./Ltée., a national company selling transit advertising space.

Comac Communications Limited

(95.5% interest)

Growth of Comac magazines is directed by, from left, Hugh Rosser, Ted Gittings, Jeff Shearer and Neil Clark.

Successful editorial content of Quest and Homemaker's is supervised by Art Director Jon Eby, left, and Editors Nick Steed and Jane Hughes.

Edward H. Gittings,
President

Jeffrey W. Shearer,
Executive Vice-President

B. Neil Clark,
Vice-President, Finance and Administration

Hugh J. Rosser,
Vice-President

Jane Hughes,
Editor, Homemaker's Magazine

Gregory MacNeil,
National Sales Manager,
Homemaker's Magazine

Kirk Shearer,
National Sales Manager, Quest Magazine

Nicholas Steed,
Editor, Quest Magazine

Controlled circulation magazines as a group are the fastest growing segment in the Canadian consumer magazine market. Comac, first into the field in North America in 1966, now publishes three major publications: Homemaker's Magazine and Madame Au Foyer with a combined English and French circulation of 1,500,000, and Quest Magazine with 700,000 circulation. Gross annual revenue has grown from under $400,000 to nearly $10 million in the 10-year period. Quest, launched in 1972 to reach upper income urban homes, has grown faster than any other national magazine, and has become profitable this year.

Editorial material of high quality and personal relevance to readers has been the standard for Comac success. Growing reader and advertiser response will result in increased publishing frequency in 1977 with Homemaker's and Madame Au Foyer going from eight to nine issues and Quest adding a seventh issue.

The Comac management team has been together since 1973. President Ted Gittings joined the company in 1967 from another leading consumer magazine and Executive Vice-President Jeff Shearer started in 1965 as Marketing Director.

Infomart

(50% interest)

Georg Mauerhoff, left, and Bob McMillan work closely with Corporate Development Vice-President A. R. Megarry.

Georg Mauerhoff,
Marketing Manager

Robert J. McMillan
Manager, Calgary Office

This information search and retrieval service provides clients across Canada with on-line access to more than 25 computerized data banks. The company is in a field of rapidly developing technology and its operation is another way in which Toronto Star Limited is involved with the development of electronic publishing.

Nielsen-Ferns Inc.

(80% interest)

Bill Watchorn, left, has joined Pat Ferns, centre, and Dick Nielsen in the management of Nielsen-Ferns' expanded operations.

Richard Nielsen,
President

W. Paterson Ferns,
Vice-President

William E. Watchorn,
Vice-President

Nielsen-Ferns Inc. is a film production company which merges the financial and business planning resources of Toronto Star Limited with the creative capabilities of a group of Canadian producers.

The principals, Dick Nielsen and Pat Ferns, and their associates have produced more than 350 programs in English and French since they formed a predecessor firm in 1972. They have co-produced film features with major Canadian, British and U.S. distributors and have achieved increasing sales success as a supplier of programs to television, educational and industrial markets in Canada and abroad.

The company, with offices in Toronto and Montreal, had a substantial backlog of production contracts when it became an 80 per cent owned subsidiary in October of 1976.

Board of Directors


William A. Dimma and Beland H. Honderich


William J. Campbell


Ruth Atkinson Hindmarsh


Burnett M. Thall

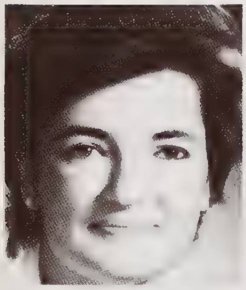

Harry A. Hindmarsh


Alex J. MacIntosh


Hon. Walter L. Gordon


Lionel C. Mohr


Richard A. N. Bonnycastle


Catherine Atkinson Crang


Martin Goodman

Consolidated Balance Sheet (thousands of dollars)
September 30, 1976 (with comparative figures at September 30, 1975)

Assets	**1976**	1975
Current:		
Cash	**$ 432**	$ 437
Short term investments, at cost, which approximates market	**8,397**	2,588
Receivables	**26,351**	16,863
Inventories	**8,982**	7,097
Prepaid income taxes and other expenses	**3,896**	1,218
Total current assets	**48,058**	28,203
Investments (note 2)	**20,705**	16,616
Fixed assets, at cost:		
Land	**3,310**	3,271
Buildings and leasehold interests	**5,131**	4,579
Presses and associated equipment	**16,142**	16,054
Non-press equipment and vehicles	**17,712**	14,461
	42,295	38,365
Less accumulated depreciation	**15,631**	12,268
Total fixed assets	**26,664**	26,097
Subscription list at amortized cost	**8,333**	8,667
Goodwill at amortized cost	**23,955**	
Total assets	**$127,715**	$79,583

On behalf of the Board:

Director

Director

Toronto Star Limited (incorporated under the laws of Ontario)

Liabilities and Shareholders' Equity	1976	1975
Current:		
Bank indebtedness	$ 4,497	$ 5,996
Accounts payable and accrued liabilities	16,276	10,291
Taxes payable	3,715	3,847
Dividends payable	643	524
Current portion of debt	961	1,033
Total current liabilities	26,092	21,691
Non-current debt (note 3)	22,823	4,439
Deferred income taxes	6,249	5,748
Minority interest in subsidiaries	6,798	
Employees' shares subscribed	1,289	1,410
Shareholders' equity:		
Share capital (note 4) — Issued and outstanding: 1976 — 8,043,153 shares (1975 — 7,489,393)	11,947	4,157
Retained earnings	52,517	42,138
Total shareholders' equity	64,464	46,295
Total liabilities and shareholders' equity	$127,715	$ 79,583

(See accompanying notes)

Auditors' Report

To the Shareholders of
Toronto Star Limited:

We have examined the consolidated balance sheet of Toronto Star Limited as at September 30, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the consolidated financial statements present fairly the financial position of the company as at September 30, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants
Toronto, Canada,
November 12, 1976.

Toronto Star Limited
Consolidated Statement of Income (thousands of dollars)

Year ended September 30, 1976 with comparative figures for 1975

	1976	1975
Revenue:		
Newspapers	$130.195	$116.267
Books and learning materials	47.811	
Printing and magazines	22.468	19.090
	200.474	135.357
Less intercompany printing revenue	7,473	6.051
Consolidated operating revenue	193.001	129.306
Consolidated operating costs (note 6)	164.566	111.392
Consolidated operating profit	28.435	17.914
Add (deduct):		
Financial expense	(2.966)	(1.747)
Investment revenue	2.367	1.995
Net financial revenue (expense)	(599)	248
Amortization of goodwill	(826)	
Exchange adjustment	(438)	
	(1.863)	248
Income before taxes	26.572	18.162
Income taxes	12.773	8.773
Income before minority interest and extraordinary item	13.799	9.389
Minority interest in earnings of subsidiary	2.109	
Income before extraordinary item	11.690	9.389
Extraordinary item — income tax reductions arising from recovery of prior years losses of subsidiaries	1.021	
Net income for the year	$ 12.711	$ 9.389
Earnings per share:		
— before extraordinary item	$1.45	$1.26
— after extraordinary item	$1.58	$1.26

See accompanying notes

Toronto Star Limited
Consolidated Statement of Retained Earnings (thousands of dollars)

Year ended September 30, 1976 (with comparative figures for 1975)

	1976	1975
Retained earnings, beginning of year	**$42,138**	$34,692
Add net income for the year	**12,711**	9,389
	54,849	44,081
Less dividends (note 5)	**2,332**	1,943
Retained earnings, end of year	**$52,517**	$42,138

(See accompanying notes)

Consolidated Statement of Changes in Financial Position (thousands of dollars)

Year ended September 30, 1976 (with comparative figures for 1975)

	1976	1975
Source of funds:		
From operations — Income before minority interest and extraordinary item	**$13,799**	$ 9,389
Add charges to income which did not reduce working capital: Depreciation	**3,045**	2,585
Amortization	**1,160**	333
Deferred income taxes	**501**	241
Total funds from operations	**18,505**	12,548
Increase in debt	**24,500**	
Shares issued on acquisition of subsidiary	**7,758**	
Extraordinary income tax reductions	**1,021**	
Decrease in investments	**333**	1,330
Employees' share purchase plan	**(89)**	1,021
Total source of funds	**$52,028**	$14,899
Application of funds:		
Acquisition of Harlequin Enterprises Limited	**30,627**	
Investment in shares of Western Broadcasting Company Limited	**4,422**	
Debt reduction	**6,116**	14,315
Increase (decrease) in working capital	**5,194**	(3,186)
Fixed assets	**2,736**	1,827
Dividends to shareholders	**2,332**	1,943
Dividends paid by subsidiary to minority interest	**601**	
Total application of funds	**$52,028**	$14,899

(See accompanying notes)

Notes to Consolidated Financial Statements

September 30, 1976

1. Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

(a) Principles of consolidation —
The consolidated financial statements include the accounts of all subsidiary companies.

(b) Foreign exchange —
The financial statements of foreign subsidiaries have been translated to Canadian dollars as follows: current assets and liabilities at exchange rates prevailing at September 30; fixed assets at exchange rates prevailing at dates of acquisition; income and expenses at average rates during the year. Exchange adjustments resulting from such translation practices are recognized in the consolidated statement of income.

(c) Provision for book returns —
Harlequin Enterprises Limited and its subsidiaries follow the practice of making a provision for anticipated book returns, which is deducted from receivables.

(d) Inventories —
Inventories, other than newsprint, are valued at the lower of cost and net realizable value. Newsprint is valued at cost.

(e) Depreciation policy —
The cost of plant and equipment is depreciated using various rates and methods depending on the estimated useful lives of the assets. The rates and methods used for major depreciable assets are as follows:

(i) Presses and associated equipment — straight line over 15 years.

(ii) Non-press equipment — straight line over 12½ years or 20% diminishing balance.

(f) Subscription list —
The subscription list is amortized on a straight line basis over a 30 year period to 2001.

(g) Goodwill —
Goodwill which arose from acquisition of subsidiaries prior to April 1, 1974 was charged to consolidated retained earnings as at the dates of acquisitions; goodwill which arises after that date is amortized over its estimated life. Goodwill carried on the consolidated balance sheet arose in 1976 and is amortized over 30 years to 2005.

(h) Past service pension costs —
The costs relating to improved pension benefits granted for employment in prior periods are amortized over the period of required funding, which is 15 years from the dates at which such benefits become effective.

(i) Income taxes —
The company follows the deferral method of income tax allocation which results in prepaid and deferred income taxes. Prepaid income taxes result from costs, principally provision for book returns, which are not currently deductible for tax purposes. Deferred income taxes result from claiming deductions for income tax purposes, principally depreciation, in excess of amounts currently charged.

2. Investments

As at September 30, investments consisted of (in thousands of dollars):

	1976	1975
First mortgage sinking fund bonds due December 31, 2000 (a)	**$11,128**	$11,256
Second mortgage receivable maturing July 25, 2001 (a)	**4,474**	4,500
Shares of Western Broadcasting Company Limited, at cost (b)	**4,422**	
Other	**681**	860
	$20,705	$16,616

(a) The first mortgage sinking fund bonds are held on the One Yonge Street building, and represent approximately one-half the total of such bonds outstanding. The second mortgage is also held on the One Yonge Street building.

(b) 417,585 common shares of Western Broadcasting Company Limited were purchased in September, 1976. Additional market purchases in October, 1976 increased the investment to approximately $6.6 million, represented by 622,500 shares or approximately 17% of Western's outstanding common shares.

3. Non-Current Debt

As at September 30, non-current debt consisted of (in thousands of dollars):

	1976	1975
Bank loans due 1979-82 with interest at prime + 1%	**$20,000**	$1,000
5½% first mortgage sinking fund bonds due 1978	**2,493**	2,882
Other debt due 1978-81 with interest at 7½%-9½%	**330**	557
	$22,823	$4,439

Non-current debt repayment requirements amount to $2,549,000 in fiscal 1978, $5,006,000 in each of 1979 and 1980, $5,262,000 in 1981, and $5,000,000 in 1982. Interest on debt, including the current portion, amounted to $2,598,059 in 1976 (1975—$1,425,000).

4. Share Capital

(a) Authorized, issued and outstanding shares —
At September 30, 1976, shares authorized, issued and outstanding, all without par value, were as follows:

	Authorized	Issued and outstanding
Common	1,890,560	
Class B, Class C	10,820,655	6,263,808
Class D, Class E	3,579,345	1,779,345
	14,400,000	8,043,153

(b) Conversion and voting rights —
The Class B, C, D and E shares are interconvertible except that neither the Class B nor Class C shares (which only acquire voting rights upon failure of the company to pay quarterly dividends on Class B or Class C shares for eight consecutive quarters), are convertible into Class D or Class E shares (which have full voting rights under all circumstances).

(c) Restrictions on transfer —
The registration of a transfer of shares may be refused if such transfer could jeopardize either the ability of the company to engage in broadcasting or its status as a Canadian newspaper.

(d) Dividend entitlements —
After payment to the holders of Class C, D and E shares of dividends equal to the non-cumulative preferential dividend paid to the holders of Class B shares in any year, all shareholders of the company rank equally respecting the payment of any further dividends. Dividends on Class C and D shares may be paid in the form of tax-deferred dividends: in this event, the conditions attaching to the Class C and D shares provide that a suitable adjustment be made for taxes, if any, payable by the company with respect to such dividends.

(e) Employees' share purchase plan — Under the company's employees' share purchase plan, employees may subscribe for Class B shares to be paid for through payroll deductions over two-year periods at a purchase price which is the lower of:

(i) 95% of the market price on the entry date, and

(ii) the market price at the end of the payment period.

Subscriptions outstanding are reflected in the accompanying consolidated financial statements at the lesser of the prices at which subscriptions were originally received (i.e. 95% of market price on the entry date) and the quoted market price of Class B shares as at the date of the consolidated financial statements.

As at September 30, 1976 the position of the plan was as follows:

Shares issued	267,359
Subscriptions outstanding	106,520
Unissued shares available for future subscriptions	226,121
Shares originally reserved	600,000

Outstanding subscriptions were as follows:

Entry dates	95% of market price on entry dates	Subscriptions outstanding
August 13, 1974	$11.40	43,440
August 11, 1975	$12.59	63,080
		106,520

During the year 2,860 Class B shares were issued under the plan for a total cash consideration of $33,000. In October, 1976, a further 43,440 Class B shares were issued under the 1974 subscription for a total cash consideration of $495,000. Further subscriptions under the plan have been temporarily suspended in order to comply with employee compensation legislation under the Canadian government's anti-inflation program.

5. Dividends

During the year, the company declared dividends of 29¢ per Class B and Class E share and 85% of this amount per Class C and Class D share. With respect to dividends on the Class C and Class D shares, the company paid a tax of 15% of 29¢. The amount recorded as dividends in the consolidated statement of retained earnings includes the dividends paid plus the related tax.

6. Consolidated Operating Costs

Operating costs for the year ended September 30 consisted of (in thousands of dollars):

	1976	1975
Newspapers —		
Employee costs	**$47,400**	$42,339
Paper and ink	**30,095**	26,641
Other	**34,492**	30,318
Total newspapers	**111,987**	99,298
Books and learning materials	**39,238**	
Printing and magazines	**20,814**	18,145
	172,039	117,443
Less intercompany printing purchases	**7,473**	6,051
Consolidated operating costs	**$164,566**	$111,392

7. Acquisition of Harlequin Enterprises Limited

In fiscal 1976 the company acquired approximately 52% of the outstanding shares of Harlequin Enterprises Limited. The consideration given was (in thousands of dollars):

Cash	$22,581
550,900 Class B shares of Toronto Star Limited	7,758
Total consideration	30,339
Expenses in connection with offer	288
Total cost	$30,627

This acquisition was accounted for as follows (in thousands of dollars):

Working capital	$10,260
Fixed assets	876
Net tangible assets, at fair value	11,136
Less minority interest in net tangible assets	5,290
	5,846
Goodwill	24,781
Total cost	$30,627

In connection with the acquisition, the company entered into agreements with certain senior officers of Harlequin Enterprises Limited pursuant to which the company will have the option to buy, and the senior officers will have the option to sell, 714,785 common shares of Harlequin Enterprises Limited. The agreements provide that such options may be exercised by either party during the periods from March 31 to June 30 in the years 1978 to 1981 as follows:

	Number of shares
1978	125,087
1979	160,827
1980	196,566
1981	232,305
	714,785

The exercise of these options can be accelerated upon the occurrence of certain events. If, and to the extent that, the options are exercised, the purchase prices as provided for in these agreements will be the greater of:

(a) $8.83 per common share, and

(b) 10 times the fully diluted earnings per Harlequin common share before extraordinary items if such earnings are equal to or less than $1.50 per share, or 12½ times the fully diluted earnings per Harlequin common share before extraordinary items if such earnings exceed $1.50 per share.

The earnings referred to above are defined as the earnings reflected in the consolidated income statement of Harlequin Enterprises Limited for the year ended December 31 immediately preceding the option period.

8. Pension Plans

The unamortized past service costs for pension benefits in effect at September 30, 1976 approximate $4.5 million.

9. Lease Obligations

(a) Commitment for space occupied — The company has entered into a lease to 2001 for a portion of The Star building at One Yonge Street for an annual rental cost of $1.7 million plus municipal taxes, maintenance and other operating costs relating to the leased portion.

(b) Contingent liability — As part of the security given by the builder-owner to finance construction of The Star building, Toronto Star Limited could be liable under certain contingencies to lease the whole building to 2001 with an annual rental commitment of approximately $2.8 million plus payment of all municipal taxes, maintenance and other operating costs.

10. Other Contingencies

(a) In 1975, the company commenced, and is proceeding with, an action for damages incurred for the failure of six printing presses provided by Crabtree-Vickers (Canada) Limited to perform in accordance with the specifications pursuant to which they were sold.

(b) The company has a number of other legal proceedings pending. In the opinion of counsel, the ultimate disposition of these other actions will not materially affect the financial position of the company.

(continued)

11. Statutory Information

The aggregate remuneration charged to consolidated income in 1976 in respect of directors and senior officers (as defined by The Ontario Business Corporations Act) was $959,000.

12. Anti-Inflation Program

Under the Canadian government's anti-inflation program (presently scheduled to be in force until December 31, 1978) Toronto Star Limited and its Canadian subsidiaries are subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and dividends to shareholders.

13. Subsequent Events

In October, 1976 the company acquired an 80% interest in the shares of Nielsen-Ferns, Inc. for a cash consideration of $800,000.

14. Comparative Information

Certain of the 1975 figures provided for purposes of comparison have been reclassified to conform with the presentation adopted in the current year. These changes do not affect the 1975 net income.

This Annual Report was designed by the Creative Communications department of The Toronto Star. It was printed in Canada by Newsweb Enterprise Limited, a subsidiary of Toronto Star Limited.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